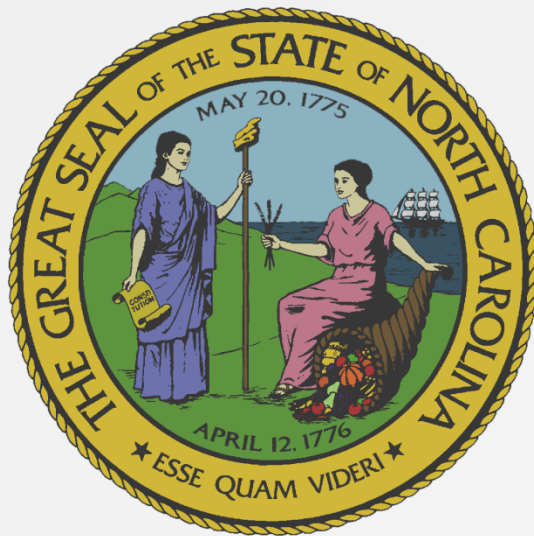




Office of State Budget and Management  
*Balancing Needs - Improving Government*



# The Governor's 2015-17 Recommended Budget for the Department of Health and Human Services

*Presented by:*  
*The Office of State Budget and Management*  
*March 11, 2015*



# DHHS Budget Overview

## TOTAL HEALTH AND HUMAN SERVICES GENERAL FUND BUDGETS

	2013-14 Actual	2014-15 Authorized	2015-16 Recommended	% Change	2016-17 Recommended	% Change
<b>Requirements</b>	\$18,468,002,559	\$18,992,200,857	\$19,601,533,472	5.75%	\$20,206,607,175	8.94%
<b>Receipts</b>	\$13,574,353,755	\$13,843,782,988	\$14,295,404,925	5.82%	\$14,675,807,718	8.58%
<b>GF Appropriation</b>	\$4,893,648,804	\$5,148,417,869	\$5,306,128,547	5.56%	\$5,530,799,457	9.92%

**The Governor's recommended budget for DHHS is \$10.8B over the biennium**

Makes significant investments in access to health care, behavioral health services, supports for families and children, improved public health infrastructure, and technology to support service delivery

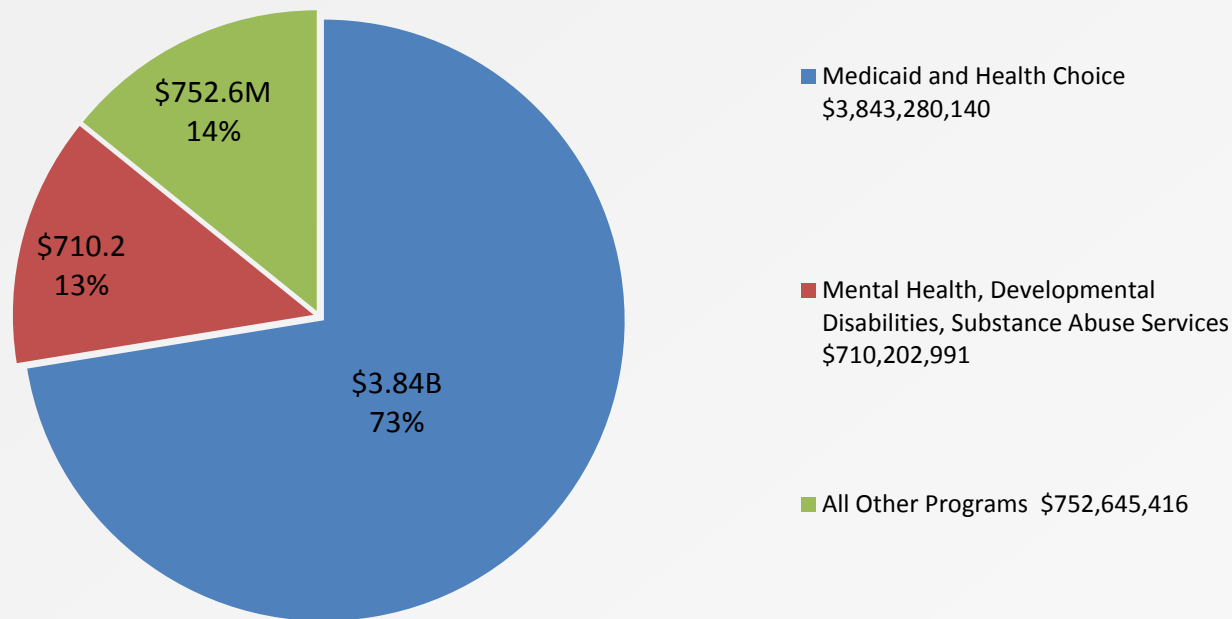
Savings are achieved through administrative efficiencies and leveraging federal funds to reduce demand on state appropriations



# DHHS Budget Overview

## DHHS State Funding

**FY 2015-16 Recommended State General Fund Appropriation is \$5.3B, growing to \$5.5B in FY 2016-17**



Medical Assistance and Mental Health account for 86% of DHHS General Fund appropriations in the recommended budget



# DHHS Recommended Budget Highlights

## Investments in the Administration's Priorities

- Community mental health services investments - \$10.2M / \$32M
- State operated health care facilities - \$27.9M / \$11.6M
- Services to children in foster care and adoption - \$4.5M / \$10.4M
- Medical Examiner improvements - \$335K / \$4.2M
- Continue Pre-K expansion from 2014-15 - \$5.04M / \$5.04M
- Support NC FAST to improve access to services - \$5.8M / \$13M
- Complete NC TRACKS development – \$2.3M / \$940K
- Develop Electronic Death Records System – \$500K / \$1.5M
- Fund Medicaid rebase - \$287.5M / \$460.6M
- Establish a Medicaid Risk Reserve - \$50M / \$125M (retained in reserve outside of DHHS)

## Savings

- Administrative efficiencies by reducing vacant positions, reducing personal services contracts, and achieving IT savings - \$7.5M / \$7.5M
- Leveraging receipts to lessen demand on state dollars - \$47.4M / \$27.8M



# DHHS Base Budget

	Recommended Base Budget for 2015-17 Biennium				
	2014-15 "Worksheet I" Authorized Budget	2015-16 Adjustments	2015-16 Recommended Base Budget	2016-17 Adjustments	2016-17 Recommended Base Budget
<b>Requirements (Expenditures)</b>	18,992,200,857	(483,259,097)	18,508,941,760	(483,981,599)	18,508,219,258
<b>Receipts</b>	13,843,782,988	(354,767,436)	13,489,015,552	(355,489,936)	13,488,293,052
<b>Net General Fund Appropriation</b>	5,148,417,869	(128,491,661)	5,019,926,208	(128,491,663)	5,019,926,206
<b>Positions (Full Time Equivalent)</b>	17,051	0	17,051	0	17,051

**Base Budget Adjustments reduced DHHS state appropriations by \$128.5M, or 2.5%.**



# DHHS Base Budget

DHHS BASE BUDGET CHANGES BY CATEGORY		
	Annualize Programs and/or Positions	(17,982,420)
	Remove Non-Recurring Decreases	42,955,771
	Remove Non-Recurring Increases	(153,465,012)
	GRAND TOTAL ALL CHANGES	(128,491,661)

Adjustments are made to annualize partially funded programs, remove non-recurring appropriations, adjust federal payroll tax changes, lease increases, and receipt funded programs, reconcile, and provide for base budget changes required by statute.



# DHHS Base Budget

		General Fund Impact
	<b>Annualize 2014-15 Enacted Appropriations</b>	
1	Child Protective Services Caseloads	956,656
2	Medicaid- Mental Health Drug Management	(6,000,000)
	Medicaid - Provider Rate and Hospital DRG Weigh Mix	
3	Reduction	(7,190,441)
4	Medicaid - Nursing Home Case Mix Index Adjustment	(2,200,000)
5	Medicaid - Single Base Rate	(10,800,000)
6	Medicaid - Nursing Home Rates	7,330,000
7	Medicaid - Paraguard Rate	(62,000)
8	Medicaid - Rx Dispensing Fee Study	(100,000)
9	Medicaid Non Recurring Rebase Funds FY13-14	(136,503,776)
10	Medicaid - Personal Care Services Study Option Program	(300,000)
11	Health Choice Hospital Single Base Rate	(63,961)
12	Vocational Rehabilitation Position Elimination	(14,674)



# DHHS Base Budget

		General Fund Impact
	<b>Remove Enacted Non-Recurring Appropriations</b>	
13	NC FAST	(864,655)
14	Competitive Grants to Non Profits	(317,400)
15	Supplemental Short Term Assistance to Group Homes	(2,000,000)
16	Senior Center Capital funding	(100,000)
17	Block Grant Swap Out	13,982,425
18	TANF for Pre K	19,842,334
19	TANF for Child Care Subsidy	3,348,849
20	Pre-K Non Recurring Expansion	(5,040,000)
21	ADAP Supplemental Rebate Funds	5,782,163
22	Nurse Family Partnership	(675,000)
23	Maternity Homes	(925,085)
24	High Risk Maternity Clinics	(375,000)
25	Federal Funds for County Child Welfare Services	(4,826,346)
26	Child Protective Services Statewide Evaluation	(700,000)
27	Child Protective Services Pilot Program	(300,000)
28	Work First Drug Testing	(125,750)
29	DSS Transfer-Maternity Homes	-
30	NC Child Treatment Program	(250,000)
	<b>TOTAL BASE BUDGET CHANGES</b>	<b>(128,491,661)</b>





# Community-Based Mental Health Services

## Investing in a Comprehensive Array of Prevention, Intervention and Treatment Services

- *Three Way Psychiatric Beds \$0 / \$10M*  
Increases local-in patient capacity by 30 to approximately 195 beds
- *Behavioral Urgent Care and Facility-Based Crisis Services \$0 / \$2M*  
Outpatient and residential services for children and adults
- *NC START (Systematic, Therapeutic, Assessment, Respite and Treatment) \$0 / \$2.3M*  
Adds a fourth START Team for improved statewide coverage and expands services to children
- *TASC (Treatment Alternatives for Safer Communities) \$1.9M / \$1.9M*  
Reduces average caseload and accommodates increased referrals



# Facility-Based Mental Health Services

## Investments in Facility-Based Care

- *New Broughton Hospital \$16.6M / \$0*

Restores one-time funding for medical equipment, furniture, and information technology to make hospital patient-ready

- *Inflationary Increases \$2.8M / \$3.2M*

Requests funding for core facility and patient care accounts, including utilities, food, and drugs

- *Chronic Budget Shortfall \$8.5M / \$8.5M*

Enables financial viability of state facilities by addressing structural gap (coupled with DHHS efficiency measures)



# Facility-Based Mental Health Services

## **Factors contributing to a chronic shortfall (gap between spending and revenues)**

- Delayed transitions of patients and staff to Central Region Hospital
- Increased expenditures due to patient acuity, increasing food and medical costs
- Variations in receipts to support facility operations, mix of patients and third party cost recovery

## **Current Year Outlook**

Net liabilities brought forward into 2014-15: \$13M

Current Year (2014-15) anticipated shortfall: \$20M

**Combined debt brought forward and current year shortfall means estimated unfunded liabilities at June 30, 2015 of \$33M**



# Office of the Chief Medical Examiner

*Invests in the Office of the Chief Medical Examiner (OCME) \$335K / \$4.2M*

- **Expansion funding will do the following:**
  - Creates 14 new medicolegal death investigator positions: 4 FTE in Y1 and 10 FTE in Y2
  - Funds two forensic pathology fellowships (one at East Carolina University and one at Wake Forest University)
  - Strengthens the medical examiner training program
  - Supports operational costs associated with accreditation by the National Association of Medical Examiners
  - Increases autopsy fees and medical examiner fees



# Electronic Death Registration System

*Develops and implements an Electronic Death Registration System (EDRS) at the Vital Records Office \$475K / \$1.5M*

- EDRS will improve customer service by doing the following:
  - Providing more accurate and timely access to certified copies of death certificates
  - Reducing turnaround time for death records
  - Increasing security of personal data
  - Enabling timely public health data analytics
- State currently uses an 84-year-old paper-based system for the 83,000 death records processed every year



# Investments in Families and Children

## *Foster Care Caseload Growth \$4.5M / \$7.5M*

Program projects growth in children of 6% and 3% each year of the biennium, respectively, and recurring state funds are recommended to ensure all children and their families receive support.

## *Adoption Assistance \$0 / \$2.9M*

Continues payments for a growing number of children moving from foster care to permanent placements.

## *NC Pre K \$2.3M / \$2.3M*

Continues the commitment to high quality early childhood programs by making permanent a one-time expansion in 2014-15 of NC Pre K slots. Funded through increased lottery receipts of \$2.7M each year and recurring state funds, the program serves more than 26,800 at-risk four-year-olds.



# Investments in Information Technology

The Governor's Recommended Budget continues the state's commitment to the development as well as the operations and maintenance of the NC FAST and NC TRACKS information technology systems to enhance access to services

## Recommended Funding for Major IT Development and Implementation

	2015-16	2016-17
NC FAST	\$5,803,000	\$13,052,000
NC TRACKS	\$2,300,000	\$940,000

## Recommended Funding for Major IT Operations and Maintenance

	2015-16	2016-17
NC FAST <sup>1</sup>	\$0	\$0
NC TRACKS <sup>2</sup>	\$400,000	\$400,000

<sup>1</sup> NC FAST O&M is funded through budget grant funds, redirecting budget used to support legacy system, and funding provided during the 2013-15 biennium.

<sup>2</sup> NC TRACKS O&M is supported by redirecting \$600,000 in savings realized by implementing the new system in addition to the base budget and the recommended expansion.



# Savings in Information Technology

The Governor's Recommended Budget achieves savings through the implementation of NC TRACKS. This is in addition to reduction items related to the implementation of NC TRACKS that were included in Session Law 2013-360 and Session Law 2014-100.

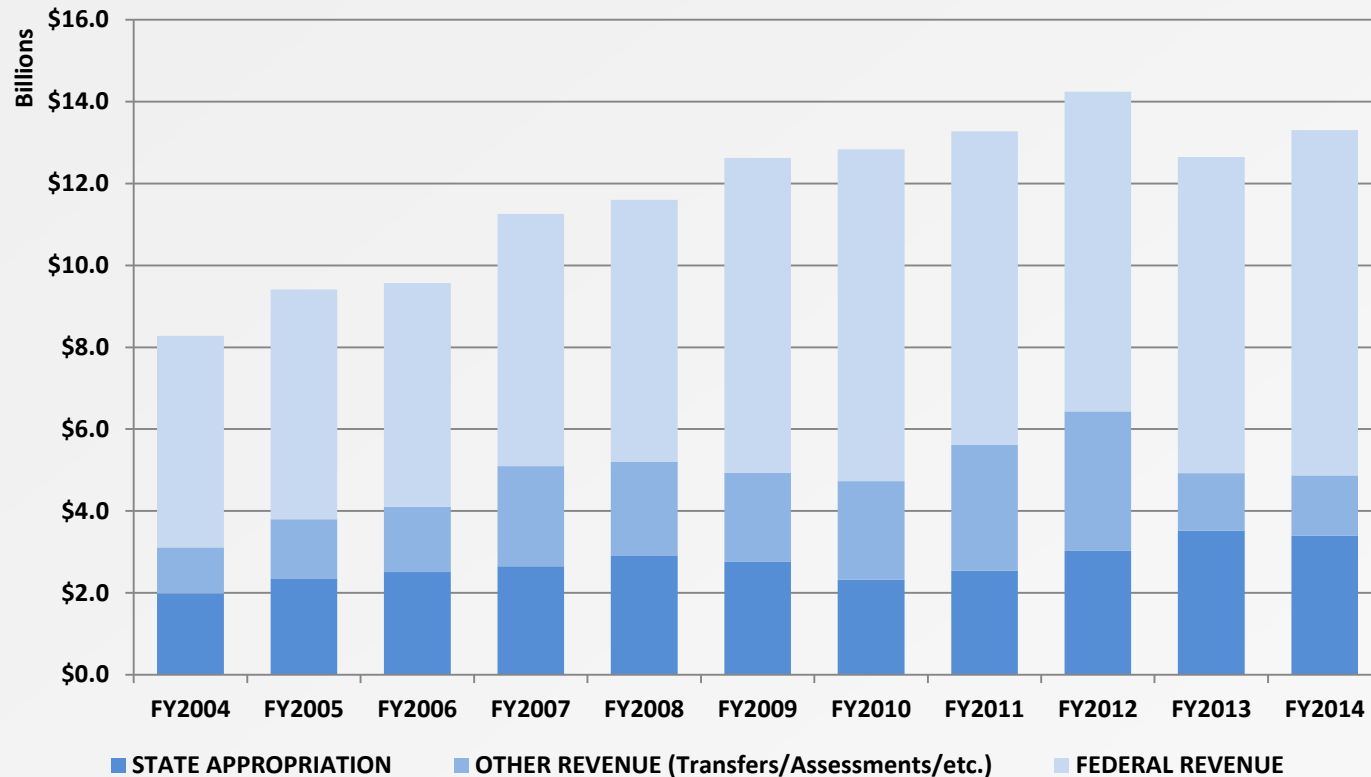
NC TRACKS Savings		
Session Law 2013-360	Division of Medical Assistance	(\$2,016,771)
Session Law 2014-100	Division of Mental Health	(\$2,400,000)
2015-17 Governor's Recommended Budget	Division of Medical Assistance	(\$4,775,749)





# Medicaid Expenditure History

## NC Medicaid Expenditures By Source of Funds



Medicaid is funded with federal dollars matched with state appropriations and other state revenues such as provider assessments and drug rebates. Federal funds make up about 2/3 of Medicaid expenditures. Inherent uncertainties in projections for the 2015-17 biennium are mitigated by a recommended risk Medicaid Risk Reserve.



## Medicaid Year to Date Through February

### MEDICAID BUDGET TO ACTUAL (In Billions)

	<b>Authorized Budget</b>	<b>Year to Date Actuals</b>	<b>% of Total Budget</b>
Requirements	\$ 13.731	\$ 8.477	61.7%
Receipts	\$ 10.043	\$ 6.088	60.6%
Appropriations	\$ 3.688	\$ 2.389	64.8%

Source: NCAS BD 701 Certified Report (03/09/2015) for the Period Ending February 28, 2015

Total Medicaid expenditures includes all payments - provider payments, cost settlements, supplemental hospital payments, current year and prior year adjustments, and administrative costs, as well as offsetting federal matching funds and all other receipts



## Medicaid Checkwrites

<b>\$10,870,728,645</b>	Total Checkwrite Budget
<b>\$7,488,357,745</b>	Checkwrite Expenditures through March 3
<b>68.9%</b>	Share of Checkwrite Budget Expended

Claims payments made to providers through NC Tracks are referred to as “checkwrites.” The checkwrite budget makes up about 79% of the total Medicaid budget.

50 checkwrites scheduled this fiscal year (34 to date and 16 remaining)

4 year average % of budget expended through the first week of March (2011-2014) is 68.8

DMA forecasts Medicaid to end 2015 with a positive cash balance



## 2015-17 Forecast

- **Prepared by DHHS using new DMA Medicaid Model**
  - Model data base, executive summary of processes and key assumptions
- **Assumptions / Variables**
  - Enrollment, consumption, mix, cost of services
  - Savings achieved/not achieved
- **Medicaid Rebase Recommendation**
  - Recommended rebase is \$287.5M in 2015-16 and \$460.6M in 2016-17
  - Governor recommends risk reserve of \$50M in 2015-16 and additional \$125M in 2016-17 (*outside of the Medicaid budget, not included in DHHS totals*)



# Medicaid Rebase

	2013-14 Actual	2014-15 Forecast	2015-17 Base Budget	2016-17 Rebase	2015-16 Budget	2016-17 Rebase	2016-17 Budget
Expenditures	\$13,303,105,674	\$13,628,963,351	\$13,277,289,348	\$1,022,356,904	\$14,299,646,252	\$1,589,329,992	\$14,866,619,340
Revenues	\$9,899,321,179	\$10,057,856,802	\$9,744,740,562	\$734,866,837	\$10,479,607,399	\$1,128,721,377	\$10,873,461,939
Appropriation	\$3,403,784,495	\$3,571,106,549	\$3,352,548,786	\$287,490,067	\$3,820,038,853	\$460,608,615	\$3,993,157,401
<i>Year-over-Year Growth</i>		4.92%			6.97%		4.53%
<i>Percent Growth over Base Budget</i>				8.58%		13.74%	

## Major Assumptions:

- Enrollment Growth – higher than historical trends
  - January 2014 through January 2015 = 8.2%
  - January 2015 through June 2015 = 10.2%
  - July 2015 through June 2016 = 4.6%
  - July 2016 through June 2017 = 3.6%
- Utilization and Average Cost per Recipient – forecasted by account, along with additional context
- Governor's Recommendation adjusted DMA's January 31, 2015 forecast:
  - Implemented policies that produced savings to the Medicaid budget
  - Removed non-enrollment driven increases or decreases (funds traditionally not part of rebase)
  - Removed 1% of claims reserve in rebase



# Medicaid Reform



The Governor's Recommended Budget supports patient-centered, provider led Medicaid reform to improve the quality of health care for citizens and contain health care costs.

## **Funding Summary:**

- \$1,160,611 state appropriations in each year of the 2015-17 biennium
- Governor's recommendation reflects:
  - Expanded state staff of 22 FTE to develop, support and monitor the transition of the Medicaid program from traditional fee-for-service to an accountable care delivery model
  - No contract expansion. Budget recommendation assumes that contract needs for actuarial analysis, ongoing reform consultation, IT system changes and quality measurement can be covered with existing Medicaid contract availability
  - Resulting savings will be incorporated into future budget forecasts



# Health Choice Rebase

	2013-14 Actual	2014-15 Forecast	2015-17 Base Budget	2016-17 Rebase	2015-16 Budget	2016-17 Rebase	2016-17 Budget
Expenditures	\$246,435,066	\$199,337,822	\$174,461,506	\$24,785,855	<b>\$199,247,361</b>	\$28,497,258	<b>\$202,958,764</b>
Revenues	\$187,777,208	\$150,861,620	\$132,586,847	\$19,262,845	<b>\$151,849,692</b>	\$22,088,046	<b>\$154,674,893</b>
Appropriation	\$58,657,858	\$48,476,202	\$41,874,659	\$5,523,010	<b>\$47,397,669</b>	\$6,409,212	<b>\$48,283,871</b>
<i>Year-over-Year Growth</i>		(17.36%)			(2.22%)		(1.87%)
<i>Percent Growth over Base Budget</i>				13.19%		15.31%	

## Major Assumptions:

- Governor's Recommendation adjusted DMA's January 31, 2015 forecast:
  - Implemented policies that produced savings to the Health Choice budget
  - Removed non-enrollment driven increases or decreases (funds traditionally not part of rebase)



# Conclusion

The Governor's Recommended Budget builds on a significant base budget level of funding for health and human services programs and makes further critical investments in access to health care, behavioral health services, supports for families and children, improved public health infrastructure, and technology to support service delivery.

**Thank you.**  
**Questions / Comments**